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VOL. CLIII NO. 167 Friday, August 26, 1988 153rd Year

Today

The recently enacted trade bill puts Japan on notice to open its government securities markets to U.S. institutions or lose similar privileges here. ____2

Comerica Bank, under pressure from the Michigan banking commissioner, has revised its Community Reinvestment Act plan to commit more than $280 million to commercial, residential, and consumer loans. ____2

Another prime rate increase is not imminent, several economists said, despite Thursday's rapid increase in interest rates worldwide and bad news on inflation. ____2

Efforts by U.S. banks to gain access to the European market may be complicated by the Fed's decision to treat the Italian government agency that owns 59% of Banca Commerciale Italiana as a bank holding company. ____3

The investor group led by former Treasury Secretary William E. Simon has struck a deal to acquire all the stock of First Interstate of Hawaii. 8

G. Robert Truex Jr., former chairman of Rainier Bancorp. and Rainier National Bank, died in Seattle. ____8

Commerce Bancshares Inc., which appears to control its own destiny because of the Kemper family's 13.6% ownership, has adopted an antitakeover measure. ____8

Workers/Workplace: American managers considering employment with Japanese firms should explore various differences in the two cultures. 13

Bank operations divisions can also benefit from marketing efforts; the last of four articles on cost-cutting. 16

In the News ____3
Letters to the Editor ____4

COMMENT

The mutual holding company structure can help thrifts attain strategic goals while providing reasonable return for investors, writes Robert Chaut in the Observer column. ____4

THRIFTS & MORTGAGES

The British mortgage unit of Salomon Brothers is facing a distinctly more competitive environment. ____2

Great Lakes Bancorp, Ann Arbor, Mich., has mapped out a strategy to become a "banklike thrift" by diversifying its services and establishing an interstate network. ____6

The FSLIC's move to release $2.4 billion in Texas assets last week for $48 million — about 2 cents on the dollar — baffled the industry. ____6

Worth Repeating

When you have headline after headline about the foibles of banks, confidence becomes a very important issue.

John Lyons, analyst for Lyons, Zomback & Ostrowski, New York. [Page 1]

FDIC Tactics In Big Failure Face Scrutiny

By STEVE KLINKERMAN
Southwest Bureau

DALLAS — Debtholders of bankrupt First RepublicBank Corp. are gearing up for a court fight challenging the means by which the Federal Deposit Insurance Corp. seized First Republic's 40 Texas member banks.

The upcoming battle centers on the March 17 transaction in which the FDIC lent $1 billion to First RepublicBank Dallas to halt a run on deposits. As surety on the loan to the lead bank, each of First Republic's member banks issued guarantees equal to its primary capital.

When the FDIC called the $1 billion note on July 29, all of the First Republic member banks in Texas failed and were taken from the parent company and placed in a federally chartered bridge bank.

Debtholders contend that the transaction was fraudulent. They say many of First Republic's member banks were solvent, valuable institutions that should have remained as property of the holding company.

"The FDIC took for itself all the assets of First Republic's good banks to defray the costs of insuring deposits at First Republic's bad banks," said Martin Bienenstock, a partner in the New York-based law firm of Weil, Gotshal & Manges.

Mr. Bienenstock represents the unsecured creditors' committee of IFRB Corp., the First Republic unit managing the claims and liabilities of InterFirst Corp., one of the two banks that merged in early 1987 to form First RepublicBank Corp.

IFRB's unsecured creditors asked First Republic's bankruptcy judge on Tuesday for authority to begin litiga-

Please see FIRST REPUBLIC: Page 15 ▶

AN AMERICAN BANKER SURVEY

33% of Execs Less Confident In Banks Than 2 Years Ago

By PHILIP T. SUDO
First in a Series

Business executives say they are confident in the nation's banking system — but less so than in recent years, according to an *American Banker* survey of corporate financial decision makers.

Nearly 46% of those surveyed expressed a great deal of confidence in the nation's banking and financial system. Another 46% said they have some confidence. Only 7% said they had very little or no confidence in the system.

But when asked how their level of confidence had changed over the past two years, 33% of the respondents said they felt less confident in the system.

"Anyone who can hear thunder and see lightning has to be a little shaken," said John Lyons, analyst for Lyons, Zomback & Ostrowski, New York. "When you have headline after headline about the foibles of banks, confidence becomes a very important issue."

The first *American Banker* Corporate America Survey was based on telephone interviews with executives of 413 randomly selected companies, none of which are financial services firms. The interviews were conducted in March and April with the executives responsible for choosing the financial services and institutions their companies use.

The survey was divided into two groups: a middle-market sample of 205 companies with revenues between $10 million and $250 million, and a large-corporation sample of 208 companies with annual revenues of $250 million or more.

Of those whose confidence in the banking system had eroded, 68.1% attributed the change to the recent wave of bank failures. Twenty-two percent cited current economic conditions, 16% pointed to the Third World loan problem, and 5% mentioned the poor quality of bank management.

"It's not surprising in light of the events that have marked the decade," said James McDermott, analyst for Keefe, Bruyette & Woods Inc., New York. He noted that Keefe's index of

Please see SURVEY: Page 14 ▶

Corporate America Speaks

American Banker today begins a series on how corporate America perceives the banking industry. Executives were surveyed last spring on a variety of topics. The results will be reported over the next few weeks. A special magazine containing the survey findings will be mailed free to subscribers in September.

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THE OBSERVER/COMMENTARY

Having it Both Ways: Pros and Cons of Mutual Holding Company

By ROBERT CHAUT

THE mutual holding company or MHC structure is a little known and less understood concept. It allows well-capitalized mutual thrifts to convert to stock form, sell shares to the public, but continue to maintain mutual control.

Properly construed, an MHC format can offer thrifts a vehicle for achieving their strategic goals while providing a reasonable return for investors. Legislation authorizing MHCs has been enacted in several states, principally in the Northeast.

Similar legislation is part of the Competitive Equality Banking Act, passed by Congress last year. It is applicable to federally chartered thrifts anywhere in the country and to state-chartered institutions domiciled in states having no MHC legislation.

Notwithstanding these moves by lawmakers to permit this new type of corporate structure, there has been no great rush by mutuals to take advantage of the legislation. In fact, the Federal Home Loan Bank Board has not yet drafted the various regulations that will have to be in place before conversion to this corporate form can occur via federal law.

Mr. Chaut is senior vice president and director of the financial institutions group at Morgen-Walke Associates Inc., a New York investor relations firm. He has followed the thrift industry for more than 25 years, primarily as a securities analyst.

The People's Conversion

A Connecticut-chartered savings institution has become the first MHC conversion, under state law. People's Bank, Bridgeport — the largest savings bank headquartered in New England, with total assets approaching $6 billion — completed its conversion in early July.

The MHC process permits a thrift to transfer virtually all of its assets and liabilities to a newly chartered stock savings bank, receiving in return shares of the "new" bank. The "old" bank then becomes a nonoperating mutual holding company, whose sole business is to own a majority interest in the shares of the new stock institution.

People's, for example, provided that its MHC receive approximately 78% of the outstanding shares of the subsidiary bank. The other 22% was sold — as in an ordinary conversion plan — first to depositors, then employees, the community and, finally, to the public.

Here, of course, is one major difference between the MHC type of conversion and the ordinary mutual-to-stock conversion that has occurred with great frequency in recent years. In a mutual-to-stock conversion, regulations require 100% of the shares to be sold for cash. In an MHC conversion under Connecticut law, the institution may limit the sale of shares to avoid creating an excessively high capital position.

Federal law is vague on this important point. Some attorneys suggest that no minority shares at all can be sold. Others believe that the Federal Home Loan Bank Board's regulations — still to be issued — will permit sale of minority shares. It is to be hoped that the latter will be the case.

Connecticut law grants priority subscription rights to depositors in the original offering of shares, as is the case in all conversions. It is, of course, possible that all the shares offered might be acquired by the depositors if a large number chose to subscribe. In the People's case, eligible depositors and Connecticut residents subscribed for about 71% of the shares offered.

> 'The mutual holding company process permits a thrift to transfer its assets and liabilities to a newly chartered stock savings bank. The 'old' bank then becomes a nonoperating mutual holding company, whose sole business is to own a majority interest in the shares of the new stock institution.'

Connecticut law provides both an absolute ceiling and a meaningful floor concerning the sale of shares. The ceiling is fixed: No more than 49% of the shares can be sold to investors, so that a majority must be held by the MHC.

The floor is voluntary. But the state law provides that if, at the time of conversion, at least 20% of the shares are sold for cash, no further subscription rights need be offered to depositors if additional shares are issued in the future.

Obviously, if newly issued shares always had to be offered to depositors before being used for such purposes as acquisitions or stock options, the technical complications of issuing additional stock would probably undermine important reasons for converting in the first place. Under such rules, it must be assumed that thrifts converting to MHC format will immediately sell at least 20% of their shares.

Management's ability to limit the sale of shares in the conversion process to between 20% and 49% is surely a positive factor for the well-capitalized thrift, which could not efficiently use all the capital a regular conversion plan would generate.

As already noted, the 1987 federal legislation is not clear on the question of selling minority shares. It does not address a 20%-to-49% sliding scale that would permit management to judge its need for new capital, or whether subscription rights would accrue to depositors after the first sale.

It is to be hoped that the Bank Board regulations will permit shares to be issued after the original conversion, with no major impediments attached. If not, the mutual holding company trend — at least via federal legislation — may stop before it gets started.

The stockholderless mutual holding company will have directors who are elected, under Connecticut law, by incorporators who are themselves directors. This will permit self-perpetuation of the directors of the MHC; they will hold a majority interest in the subsidiary savings institution, with public shareholders in the minority.

In Connecticut, the MHC cannot reduce its ownership of the subsidiary bank below 51%. While this legal requirement is rare, perhaps unique, in corporate law, the concentration of

Please see OBSERVER: Page 13 ▸

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LETTERS TO THE EDITOR

FDIC Says It Considered Managing 1st Republic

To the Editor:

In criticizing the Federal Deposit Insurance Corp.'s resolution of the First RepublicBank Corp. crisis [Aug. 16, page 1], Sanford Rose relies on an assumption that isn't supported by the facts. His assumption is set forth in the following passage:

"The evidence suggests that the FDIC ruled out the option of running First Republic on its own. In other words, the agency solicited bids from private parties after having decided that it either could not or would not operate the institution as a fully nationalized entity.

"By circumscribing the range of choices, the agency handicapped itself. It is conceivable that if private bidders knew that the FDIC was still weighing the option of running the institution by itself, they might have been disposed to raise their bids."

Mr. Rose does not describe the "evidence" he cites. So far as we can determine, he did not contact anyone at the FDIC to ask if the agency at the outset had, in fact, ruled out operating First Republic's banks.

As it happens, Mr. Rose's assumption is incorrect. In discussions with bidders, FDIC Chairman L. William Seidman made it clear that the agency was considering as a serious alternative installing management and operating First Republic for an indeterminate period. Indeed, the "stand-alone" option was among the proposals considered, first by the FDIC staff and finally by the FDIC Board of Directors, right up until July 29, the day the final decision was made and announced.

While Mr. Rose may think the FDIC acted with "unseemly haste" in resolving the First Republic situation, the Texas public and its banking industry probably wouldn't agree. First Republic was the largest banking operation in the state, and the months-long uncertainty about its future contributed to a general perception of instability in the state's banks and in its economy.

Mr. Rose is correct in stating that the FDIC prefers not to operate banks. As a bank regulator, we think that is a sound position, especially when it involves the largest bank in a market.

A final point of clarification relates to Mr. Rose's reference to "the $210 million or so bid by NCNB." That's somewhat misleading. NCNB did not bid $210 million for First Republic; it bid that amount for 20% of the entity, plus the right to purchase the FDIC's 80% share at a future price which is estimated to be in excess of $1 billion.

Alan J. Whitney
Director
Corporate Communications
Federal Deposit Insurance Corp.

Sanford Rose's reply:

Mr. Whitney asserts that as far as he can determine, I did not contact anyone at the FDIC to ask if the agency had ruled out operating First Republic's banks. But of course I did, and a well-informed source with an understandable craving for anonymity described the events in some detail.

He pointed out that the FDIC performed an analysis of the relative economics of government operation vs. sale. I am grateful to Mr. Whitney for calling attention to the imprecision of my statement about the $210 million. But that does not change the point — to wit, the FDIC's analysis revealed that the discounted value of the net revenues to be earned if the institution remained in government hands exceeded what could be realized by selling it to NCNB. On paper at least, it was more profitable to hold than to sell.

Despite this analysis, the FDIC had no intention of holding, and this must have been clear to the private bidders, whatever Mr. Seidman may have told them. FDIC personnel made no secret of their lack of enthusiasm for running failed banks. Many suggested that government ownership of Continental Illinois was a key factor delaying the recovery of that institution.

And others apparently felt quite sincerely that Texans would boycott a fully nationalized bank, making it impossible to realize the projected revenues. Is it conceivable that these attitudes were not known to the bidders?

Indeed, another bit of evidence suggests that the bidders should have divined the FDIC's intentions. Agency insiders were avowedly concerned that had the FDIC not accepted what was offered, the local marketplace would have said in effect: "This bank is so bad that no one in the private sector wants it."

This, in the opinion of some at the FDIC, would have led to further deposit outflows and further damage to the business potential of the institution. Is it possible that canny private negotiators could not detect the smell of fear? A key representative of one of the negotiating groups insists that he, for one, could catch the scent.

AN AMERICAN BANKER SURVEY

Executives Still Have Faith in Banking, but It's Shaky

▸ Continued from Page 1

money center and regional bank stocks — a measure of investor expectations — declined 20% from March 1986 to March 1988. Similarly, the *American Banker* index of money center stocks declined 36% during the period. In contrast, the Standard & Poor's 500 Composite index rose 8.6% in the period.

Only the NASDAQ index of small bank stocks improved over the two years, by 11%.

A Measure of Faith

Beyond its effect on stock prices, confidence is important because it measures the corporate world's faith in banking relationships, Mr. Lyons said. Borrowers, for example, invest as much time as lenders do in trying to build a solid, enduring relationship, and they do not like to see that effort undermined by problems in the system.

And from a depositor's standpoint, "confidence is everything, because corporate deposits are the uninsured deposits," Mr. Lyons said. Most large and middle-market companies have balances that exceed $100,000, which puts them outside the Federal Deposit Insurance Corp.'s protection. "In that sense, the corporate depositor becomes like an investor in the bank."

Fifty-four percent of the respondents said they were as confident in the banking system as two years ago. An additional 12% were more confident in system.

Significantly, though, the level of confidence varied by the size of the company. Large corporations expressed more confidence in the banking system than did middle-market companies.

Nearly 53% of the large firms said they had a great deal of confidence in the banking system, with only 2.9% indicating very little confidence. Among middle-market respondents, 38.5% reported a great deal of confidence and 10.2% said they felt very little confidence.

"The middle market is of greater concern to me than the large corporation," Mr. Lyons said. "The large corporations don't borrow from banks anymore, so they don't care as much. But the middle-market borrower has a life and death relationship with banks — they're hand in glove with the bank, and they're saying, 'I'm scared.' "

As one Atlanta-based executive put it, "I still have confidence in the system — but not as much confidence in the banks."

The slip in confidence has led many respondents to change the way they conduct their banking business.

'One Key Bank'

"We've consolidated our banking with one key bank," said the chief financial officer for a Michigan-based health service who expressed only some confidence in the system. Conversely, the controller of a Texas-based chemical company who felt very little confidence in the industry said, "We're separating our accounts and putting them in different banks to handle."

Another executive in Texas, whose banks have suffered through a spate of bad energy loans, said, "We don't keep accounts in excess of $100,000 because [the banks] are going down right and left. They're not doing their homework, and it's going to hurt our business."

Some indicated they are willing to look for financial services at institutions outside of banking.

"Because of the high failure rate in the banking system, we've put less and less reliance on banks and more on other financial institutions," said a California firm president who felt less confident in the industry.

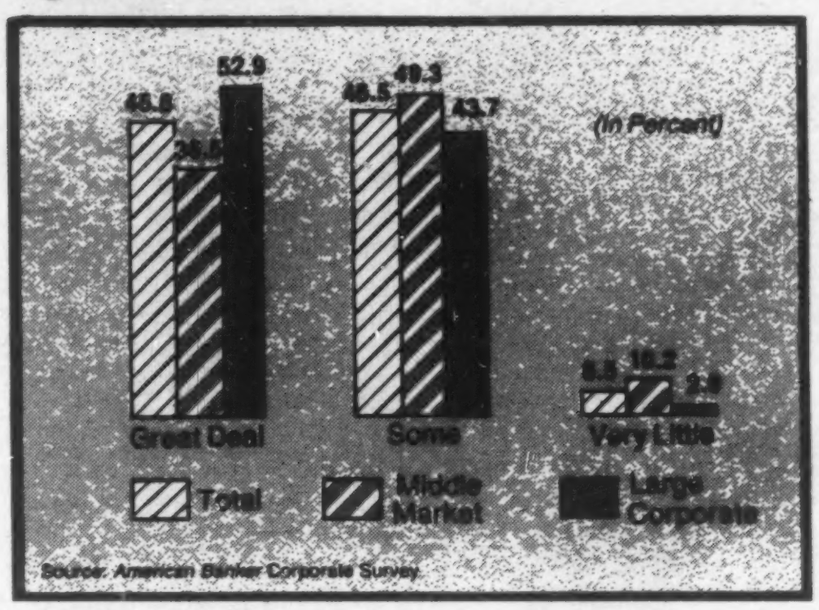
Despite these problems, the banking system is still better equipped to handle problems today than it was 15 years ago, Mr. McDermott said.

"I remember when Herstatt created a crisis of confidence," he said, referring to the German firm Bankhaus I.D. Herstatt KGaA, whose failure in 1974 sent shock waves through the world financial system. "It used to be that a single event like that would set off all kinds of alarms.

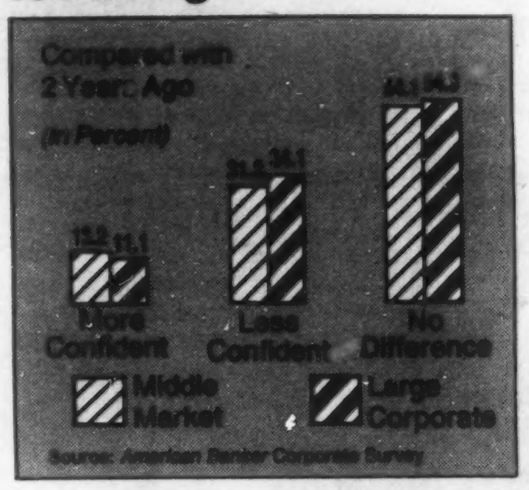
"Here in the last year, we've gone through the stock market crash and a whole series of crises, and they've been managed through," he said. "So if you look at it, it suggests a fungibility of the banking system. For the industry to have gone through as many crises as it has and still be in good shape is a sign of inherent strength."

Next: Consolidation in the banking industry has created benefits and problems for corporate America.

Confidence Remains in the Banking System...



...But Confidence Is Falling



How the Survey Was Conducted

The first *American Banker* Corporate America Survey is based on telephone interviews with executives of 413 randomly selected companies, none of which are financial services firms.

Trans Data Corp., a research affiliate of the *American Banker,* developed the survey questionnaire in collaboration with the newspaper's editors and reporters. Trans Data, Salisbury, Md., conducted the interviews, tabulated the responses, and assisted in the preliminary analysis for the survey.

The interviews were conducted in March and April with executives responsible for choosing the financial services and institutions their companies use.

The survey was divided into two groups: a middle-market sample of 205 companies with revenues between $10 million and $250 million, and a large-corporation sample of 208 companies with annual revenues of $250 million or more. Within those two groups, companies were randomly selected from a universe of 80,531 middle-market companies and 3,010 large corporations.

The sample has a margin of error of plus or minus five percentage points with a 90% confidence level. That means if 60% of the companies give a response, there is a 90% probability that the actual percentage is between 55% and 65%. This margin of error applies to the total sample. Subgroups with smaller sample sizes have greater margins of error. ■

Bank Board Unfazed by ARM Rate Risk

By PHIL ROOSEVELT

NEW YORK — An official at the Federal Home Loan Bank Board downplayed concerns that thrifts are offering adjustable-rate mortgages at rates so low as to invite losses.

"We don't have any concrete evidence that there's widespread mispricing," said James R. Barth, chief economist for the thrift regulator. "There may be some individual cases."

That view contradicts findings by the Federal Home Loan Mortgage Corp., or Freddie Mac. The secondary market agency maintains that up to half of all new adjustable-rate mortgages will result in economic losses for the lenders.

And earlier this week, Robert D. Horner, chairman of Citicorp Mortgage Inc., called the underpricing of adjustable loans "the No. 1 issue facing mortgage lenders."

Last week, lenders were offering the most popular type of adjustable loan at an average rate of 8.07%, or 20 basis points below the weekly average for one-year Treasury securities. In February, the average initial rate for that type of loan was nearly 100 basis points above the Treasuries, and two years ago it was nearly 250 basis points above the Treasuries. ■

Dear Reader, How Are We Doing?

The *American Banker* wants to make sure our Corporate America Survey meets your information needs. So would you spend a moment to give us some feedback? Please clip out this questionnaire and return to: William Zimmerman, Editor, American Banker, One State Street Plaza, New York, N.Y. 10004 (212) 943-5712.

(1.) How would you **change** the survey to make it more useful? What would you add?

(2.) What do you like **best** about the survey?

(3.) What do you like **least** about it?

(4.) How do you use the survey in your work?

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